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Société Générale Retreats From Risky Structured Products

The French bank, stung by trading losses, said it would pull back from one of its specialties, complex financial derivatives tied to stocks

Société Générale was hurt in the latest quarter by a reduction in the value of its investment-banking business.

PHOTO: NATHAN LAINE/BLOOMBERG NEWS

By Pietro Lombardi and Patricia Kowsmann

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French banking giant Société Générale SA, SCGLY -5.05% ▼ stung by coronavirus-related trading losses earlier this year, plans a retreat in its investment-banking unit and posted a surprise loss Monday, even as rivals thrived on the increase in stock and bond trading.

While competitors such as Goldman Sachs Group Inc. and Morgan Stanley have gained from customers moving their investments around to adapt to market shifts under the pandemic, Société Générale took to adapt to market shifts under the pandemic, Société Générale took losses in one of its specialties, creating and selling complex investment products.

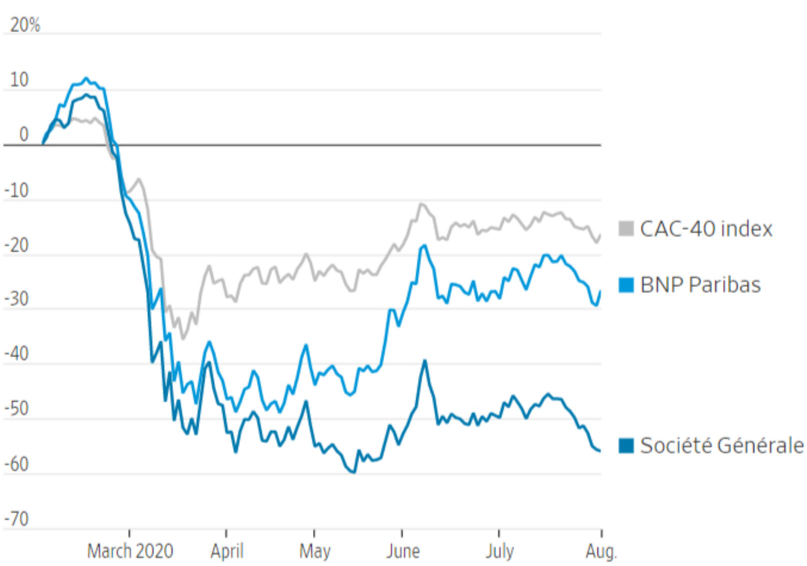
The bank on Monday reported a €1.26 billion ($1.48 billion) net loss for the second quarter, compared with a profit of €1.05 billion in the same period a year earlier. Much of the loss was related to €1.33 billion in charges related to the reduction in value of its investment-banking business and deferred-tax assets that it no longer expects to recover.

Net banking income, the bank's top-line revenue figure, fell almost 16% to €5.3 billion. Analysts had forecast a small profit and slightly higher revenue.

Revenue from equities trading fell 80% in the from the year-earlier period, trailing rivals who showed gains in revenue or more modest declines.

Société Générale, in addition to being a major French retail bank, concentrates on producing and trading complex derivatives related to the stock market. It took major losses in the first quarter when the market panic related to the coronavirus pandemic upended trades in that business.

Share-price performance versus France's benchmark stock index



As of Aug. 3

Source: FactSet

The bank said it had concluded a review and will cut back on risk-taking in such structured products tied to the performance of stocks and bonds. Lower risk-taking at its trading operations will mean it will be less likely to lose money when markets are dislocated. But it will also result in a revenue decline of between €200 million and €250 million, it said. It plans to counter the fall with cost cuts worth some €450 million by 2022-23.

"The group will continue to adapt its activities to the new post-Covid crisis environment, extending in particular the efforts to reduce costs," Société Générale's Chief Executive Frédéric Oudéa said. Overall costs were down 10% in the second quarter.

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Investment products tied to those structured trades promise investors high returns when markets are calm, and generate strong fees for the bank. But the wild and violent swings in markets in March and April left the bank exposed.

Société Générale has suffered most because companies canceled dividend payments to save money. Some of Société Générale's structured products are tied to shareholder payouts.

The bank had been among the worst-performing major bank stocks in Europe this year. Shares have fallen almost 60% since the beginning of the year and were down 2% Monday. Investors are deeply skeptical of its ability to generate profits and avoid trading losses. Its shares are valued at just 16% of book value, compared with 44% for rival BNP Paribas SA and 124% for JPMorgan Chase & Co.

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BNP Paribas, which also sells complex structured products to customers, reported strong second-quarter profits last week, attributing it to a diversified business model.

Mr. Oudéa said Société Générale has designed a quarter profits last week, attributing it to a diversified business model.

Mr. Oudéa said Société Générale has designed a new range of products for clients that will be less risky for the bank, but added it wants to retain its market share in equity structured products. He said business improved in the second half of the quarter when there was a rebound in activities from mid-May.

Like other European banks, Société Générale took substantial provisions for soured loans, as the impact of the coronavirus shutdowns rippled through the economy. It stowed away €1.28 billion for provisions, up from €314 million a year earlier.

Bank officials, however, said retail activity was back to normal in June after falling sharply during the lockdown in France.

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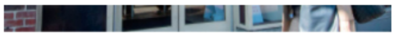

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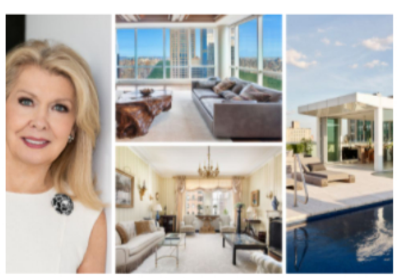

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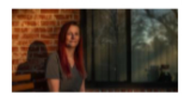

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